

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

IN THE MATTER OF)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
High-Cost Universal Support Service)	WC Docket No. 05-337

NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING

Reply Comments of the Montana Public Service Commission

August 11, 2010

The Montana Public Service Commission (MPSC) has read with great interest many of the initial comments filed in this proceeding. A number of parties addressed concerns which the MPSC also shares. Therefore the MPSC hereby submits reply comments in the above captioned matter.

SUMMARY

The MPSC applauds the proposal to make broadband a supported service under the Universal Service Fund. The importance of broadband to Montana cannot be overstated. However, the MPSC believes certain reform proposals included in the NOI and NPRM will not lead to additional broadband deployment in Montana but instead will imperil the existing rural telecommunications companies and their networks in Montana that to a large extent are already providing broadband services to their customers. The FCC proposed reforms would have the perverse effect of not increasing the availability of broadband in rural and unserved areas, but instead decreasing that availability.

In considering the reform proposals and question raised in the FCC NOI and NPRM there must be first a basis for such consideration. What goals and principles must be met by any reform? The principles of the Universal Service Program in the United States are set forth in U.S.C. 47.5.254(b) as follows:

b) Universal service principles

The Joint Board and the Commission shall base policies for the preservation and advancement of universal service on the following principles:

(1) Quality and rates

Quality services should be available at just, reasonable, and affordable rates

(2) Access to advanced services

Access to advanced telecommunications and information services should be provided in all regions of the nation.

(3) Access in rural and high cost areas

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

(4) Equitable and nondiscriminatory contributions

All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

(5) Specific and predictable support mechanisms

There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.

(6) Access to advanced telecommunications services for schools, health care, and libraries
Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h) of this section.

The MPSC believes the existing “legacy” USF High Cost Support program has been very successful in fulfilling the above Universal Service Principles. That program cannot be reduced or eliminated without jeopardizing the ongoing operation and maintenance of the modern voice and data services currently provided to rural Montana. The customer rate increases that would be required to be imposed by rural ILECS to replace USF High Cost Support are staggering and not affordable. If the “legacy” program is reduced and eliminated, without a workable replacement support program, it is the opinion of the MPSC that the *reformed* Universal Service High Cost Support program will not meet the statutory requirements of U.S.C. 47.5.254(b)(3) regarding *comparable rates* for similar services.

The MPSC believes the CETC High Cost Support should not be eliminated. That support enables several CETCs in Montana to provide service to customers that otherwise would not have service. The MPSC urges the FCC to eliminate the interim CETC fund cap and, to control the size of the fund, eliminate the identical support rule.

Finally, the FCC proposes to support universal access to 4Mbps broadband service. The supported services would be deployed through the use of Connect America Fund (CAF) support. Undoubtedly the vast majority of the current unserved population resides in rural areas. Meanwhile the FCC’s goal is for 100 million people to have affordable access to 100Mbps broadband. The FCC is pushing 4 Mbps service in rural areas and 100 Mbps service in urban areas. Again this violates U.S.C. 47.5.254(b)(3), comparable rates for *similar services*.

SPECIFIC CONCERNS

Reduce and Eliminate “Legacy” High Cost Support Mechanisms to fund the Connect America Fund (CAF)

Most troubling in the NPRM and the National Broadband Plan (NBP) are the proposals to begin reducing the legacy high cost support and the eventual elimination of that support and the utilization of those monies to fund the CAF.

Montana is an extremely rural state by any standard. To understand our concerns, one must first understand certain facts about the rural nature of Montana. Of Montana's 56 counties, 45 are designated as Frontier, Non-metropolitan. (See Attachment A.) Frontier is defined as follows:

Frontier areas are sparsely populated rural areas that are isolated from population centers and services. Frontier is sometimes defined as places having a population density of six or fewer people per square mile. However, this definition does not take into account some of the other factors that may isolate a community. Therefore, other definitions are more complex and address isolation by considering distance in miles and travel time in minutes to services.¹

Montana has an estimated 2009 population of 974,989² residing in 147,046 square miles³ or an average of 6.6 people per square mile. On a geographic basis, Montana is the fourth largest U.S. state. (See Attachment B.) Montana has five Micropolitan Statistical Areas (MISAs) and three Metropolitan Statistical Areas (MSAs) for a total of eight Core Based Statistical Areas (CBSAs). (See Attachment C). MSAs, MISAs, and CBSAs are defined as follows:

Metropolitan and micropolitan statistical areas (metro and micro areas) are geographic entities defined by the U.S. Office of Management and Budget (OMB) for use by Federal statistical agencies in collecting, tabulating, and publishing Federal statistics. The term "Core Based Statistical Area" (CBSA) is a collective term for both metro and micro areas. A metro area contains a core urban area of 50,000 or more population, and a micro area contains an urban core of at least 10,000 (but less than 50,000) population. Each metro or micro area consists of one or more counties and includes the counties containing the core urban area, as well as any adjacent counties that have a high degree of social and economic integration (as measured by commuting to work) with the urban core.⁴

If one takes a more granular look at Montana, one finds the following:

¹ North Dakota State University – ND Facts

² United States Census Bureau

³ State of Montana Department of Commerce – Montana Facts

⁴ U.S. Office of Management and Budget

MONTANA 2009 POPULATION STATISTICS⁵

Geographic Area	2009 Population	Square Miles	Persons Per Square Mile
Billings MSA	154,553	4,709	32.8
Bozeman MISA	90,343	2,631	34.3
Butte-Silver Bow MISA	32,949	718	45.9
Great Falls MSA	82,178	2,708	30.3
Havre MISA	16,632	2,915	5.7
Helena MISA	73,412	5,151	14.3
Kalispell MISA	89,624	5,253	17.1
Missoula MSA	108,623	2,615	41.5
Total CBSAs	648,314	26,700	24.3
Total Montana	974,989	147,046	6.6
Total Frontier Montana	326,675	120,346	2.7

For 2009 the estimated population of the United States was almost 310 million spread over 3.5 million square miles (including Alaska). This equates to approximately 88 people per square mile. Looking across the United States, following are the population densities (person per square mile) for some of the larger MSAs:⁶

New York MSA	56,012
Los Angeles MSA	23,857
Boston MSA	18,868
Washington D.C.	13,038

Comparing Montana to the United States, Montana averages 6.6 people per square mile versus 88 for the United States. Montana's largest "urban" center, Billings, has 32.8 persons per square mile versus the tens of thousands of people per square mile in the real "urban" cities of the United States.

Again, Montana is a vast state with a very small population. Montana has long distances and very low population density. This makes providing telecommunications services to the people of Montana very expensive. If one looks at the above Montana Population Statistics Table, one large provider (Qwest) serves seven of the eight CBSAs and CenturyLink, a mid-

⁵ United States Census Bureau, Montana Department of Commerce

⁶ United States Census Bureau

sized provider serves the other. The ten non-frontier counties and one Frontier-Metropolitan county in Montana are all contained in the eight CBSAs served by Qwest and CenturyLink. The remaining 45 Frontier Counties in Montana are served by 15 different Incumbent Local Exchange Carriers (ILECs) which include 14 rural ILECs⁷ plus Citizens Communications⁸. Those fifteen ILECS serve 326,675 people (33% of Montana's population) spread over 120,346 square miles (82% of Montana's geographic area). This yields a population density for those fifteen ILECS of 2.7 persons per square mile. **It is the sustainability of the 14 rural ILECs that is the major concern of the MPSC with regards to the NPRM and the NBP.**

For calendar year 2009 the MPSC designated 17 Incumbent Local Exchange Carriers (ILECs) as Eligible Telecommunications Carriers (ETCs). Those ILEC ETCs received \$68.0 million in Universal Service Fund (USF) high cost support in 2009⁹. For calendar year 2009 there were also 7 Competitive Local Exchange Carriers (CLECs) in Montana designated as ETCs (CETCs) and they received \$11.8 million in USF high cost support¹⁰. Thus, in 2009 Montana ETCs received just short of \$80 million in USF High Cost Support (see Attachment D). Of the 17 wireline ILECS receiving support, 14 are rural ILECs that received \$50.3 million in support. The rural ILECS in Montana, in the opinion of the MPSC, have built very modern voice and broadband networks and broadband is available to a very high percentage of their customers. The three legged stool which provides the revenue for rural companies is composed of 1) end user revenues, 2) USF High Cost Support, and 3) Intercarrier Compensation. The rural companies in Montana receive approximately 60% to 70% of their revenues from USF High Cost Support and Intercarrier Compensation (ICC). Approximately one third of their revenues come from each leg of the stool.¹¹

To illustrate the MPSC's concerns regarding the reduction and elimination of legacy high cost support mechanisms, the MPSC will use two specific Montana company examples. The

⁷ Blackfoot Telephone Cooperative, Hot Springs Telephone Company, Interbel Telephone Cooperative, Lincoln Telephone Company, Mid-Rivers Telephone Cooperative, Nemont Telephone Cooperative, Northern Telephone Cooperative, Project Telephone Company, Range Telephone Cooperative, Ronan Telephone Company, Southern Montana Telephone Company, 3-Rivers Telephone Cooperative, Triangle Telephone Cooperative, Central Montana Communications

⁸ Citizens has a small presence in Montana serving three communities in northwest Montana -

⁹ 2009 USAC High Cost Support Disbursement Report

¹⁰ Ibid.

¹¹ MTA Oral Presentation at the July 27, 2010 MPSC USF Reform Roundtable

first example is Northern Telephone Cooperative. Northern serves 1,500 customers in a 3,500 square mile geographic area in north central Montana along the Canadian border. Northern provides modern voice and broadband services to its customers. One hundred percent of its customers have access to broadband and Northern is in the midst of a long term project to deploy Fiber to the Premises (FTTP) to all of its customers. Northern estimates that the loss of USF High Support would mean it would be required to raise the monthly rate to each of its customers by \$85 or over \$1,000 per year.¹² This does not take into account the possible elimination of another one third of Northern's revenues if ICC goes to zero. Obviously, such rate increases are not affordable for the majority of Northern customers and would threaten the very existence of Northern and ironically lead to fewer rural customers having access to broadband services.

The second example is Blackfoot Telephone Cooperative.¹³ Blackfoot serves customers in central western Montana. Blackfoot serves approximately 16,500 customers in rural Frontier counties in western Montana and has broadband available to 96% of its customers. The current Blackfoot local residential rate is \$25.00/month. The loss of approximately \$8.6 million in High Cost Support would require an increase in monthly rates of approximately \$44.00 per month to almost \$70.00 per month. The loss of ICC revenue would require increasing that monthly rate to over \$80.00. Again, as was the case with Northern, rates such as those are simply not affordable for the vast majority of Blackfoot customers.

The modern voice and broadband networks already deployed by the rural ILECs in Montana provide broadband that is available to almost all of the customers of those rural ILECs (as evidenced by the 96% availability to Blackfoot customers and 100% availability to Northern customers.) If the "legacy" high cost support is reduced and eventually eliminated, the MPSC believes the rate increases required by the other 12 rural companies serving Frontier counties in Montana would be similar and in some cases greater than those required for Northern and Blackfoot. Such rate increases would ultimately reduce the number of Montana rural customers subscribing to broadband service, not increase it.

Continuing support for the existing rural ILEC networks is imperative. The rural ILECs in Montana bought into the 1996 Telecommunications Act and the Universal Service principles

¹² Northern Telephone Cooperative written comments to the MPSC for the July 27, 2010 USF reform Roundtable – comments available at www.psc.mt.gov, E-Documents, N2010.7.73.

¹³ Blackfoot information provided to the MPSC in oral comments at the MPSC July 27, 2010 USF Reform roundtable

of Section 254. On good faith that USF High Cost Support would provide a specific, predictable, and sufficient revenue stream, those companies built their modern networks, including, per U.S.C.254(b)(1), advanced services such as broadband and they are continually expanding and modernizing those networks as required. Not only do these companies utilize USF High Cost Support to build, maintain, and operate these networks, in numerous cases those companies have taken out loans from the Rural Utilities Service (RUS) and traditional lenders such as CoBank. Triangle Telephone Cooperative, for example told the MPSC that ” Both Triangle and Central Montana Communications have implemented construction programs that will allow their rural subscribers to have access to advanced broadband service upon completion of network upgrades. Those upgrades require modifying networks to operate as a fiber based system rather than a copper based system Triangle’s and Central’s current upgrade plans are scheduled through the year 2024. Thus it is obvious that this not a short term commitment. The majority of the costs for these projects are funded through loans received primarily from the RUS as well as loan fund from CoBank, a traditional lender.”¹⁴ The loss of USF High Cost Support will mean those companies will not be able to maintain and operate those networks without massive rate increases and, they will also be unable to service their debt or obtain new debt financing.

The MPSC finds one statement in ¶ 53 of the NPRM especially curious and bothersome. That statement is “The intent of the proposals is to eliminate the indirect funding of broad-band capable networks today through our legacy high-cost programs.” The MPSC views Section U.S.C. 254(b)(1) as a mandate to deploy advanced services through the use of USF High-Cost Funds. Section 254 obviously intended that USF High-Cost Support would be used to deploy, maintain, and operate modern networks capable of supporting both voice and broadband service. The extensive deployment of broadband by the Montana rural ILECs is a perfectly legitimate use USF High-Cost Support.

It is obvious to the MPSC that the loss of legacy support will yield massive unaffordable rate increases for the customers of the rural ILECS. This will violate U.S.C. 254(b)(3):

(3) Access in rural and high cost areas

¹⁴ Triangle Telephone Cooperative written comments to the MPSC for the July 27, 2010 USF reform Roundtable – comments available at www.psc.mt.gov, E-Documents, N2010.7.73.

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are *available at rates that are reasonably comparable to rates charged for similar services in urban areas.*

If the legacy high cost programs are reduced and eliminated there will certainly not be comparable rates for comparable services for Montana rural ILEC customers.

The FCC NBP states on Page 147 that “ Shifting identified funds to support broadband could have transitional impacts that will need to be carefully considered.” That is an understatement of incredible magnitude. The use of the word” transitional” makes the loss of USF High Cost Support for rural ILECS seem like a transitory issue that will disappear. This is not the case. What are the rural ILECS supposed to transition to for support of their existing networks? What mechanisms might be put in place to replace the legacy High Cost Support? Simply eliminating the support is not acceptable. The MPSC suggests that either the legacy High Cost Support mechanisms be continued, or before they are reduced, there needs to be established a mechanism to continue the support currently being received by the Montana rural ILECS.

Elimination of Competitive ETC (CETC) High Cost Support and Identical Support Rule

The MPSC is concerned about the proposal to eliminate CETC High Cost Support.¹⁵ The MPSC has designated seven CETCs. Of the seven, three are rural wireline CETCs which received \$1.2 million in CETC High Cost Support and the other four are wireless CETCs which received \$10.6 million. Of the four wireless providers, three are Montana based companies (Sagebrush, Mid-Rivers Wireless, and Chinook Wireless). The three Montana based wireless companies received \$7.7 million in CETC High Cost Support. The fourth wireless CETC was Alltel receiving \$2.9 million.

The MPSC is concerned about the proposal to eliminate CETC High Cost Support over five years. The MPSC designated Mid-Rivers Cellular as a CETC in April, 2005¹⁶. The MPSC

¹⁵ FCC NPRM. Page 25

¹⁶ MPSC Docket No. D2003.8.105, Order No 6518a

designated Sagebrush Cellular, Inc. as a CETC on December 7, 2005¹⁷. The MPSC designated Chinook Wireless as a CETC in August, 2008¹⁸. The MPSC conditioned Mid-River's, Sagebrush's, and Chinook's CETC High Cost Support on those companies building out their wireless networks and increasing coverage in their study and service areas.

The Montana based wireless providers designated as CETCs have and continue to extend wireless coverage in wireless unserved rural areas of Montana through the use of the CETC High Cost Support. The MPSC has already granted an extension to Sagebrush regarding its build out commitments because of the FCC imposed interim cap on CETC funding which has reduced Sagebrush's funding. The MPSC is concerned that the elimination of CETC High Cost Support will mean the end of the expansion of wireless coverage in rural areas of Montana. The large national wireless providers certainly do not have any incentive or plans to serve unserved areas in rural Montana. In addition, the MPSC worries about the ability of these Montana based wireless providers to continue to operate and maintain their existing networks without CETC High Cost Support. CETC High Cost Support has enabled Mid-Rivers Cellular to provide improved wireless service opportunities to more than 25,000 Montanans, as well as wireless coverage to approximately 10,000 previously unserved square miles of Montana.¹⁹

The MPSC believes the "identical support rule" is the primary driving factor in the growth of the CETC High Cost Support fund that led to the current interim cap. The identical support rule awards federal high-cost CETC support to CETCs based on the costs of the ILEC rather than on the CETC's own costs. The Federal State Joint Board²⁰ on May 1, 2007 issued a recommendation that the FCC place a cap on high-cost fund payments to CETCs. In the *2007 Cap Recommended Decision* the Joint Board also asked the FCC to consider abandoning or modifying the identical support rule. The Joint Board stated, "The identical support rule seems to be one of the primary causes of the explosive growth in the fund."

¹⁷ MPSC Docket No. D2004.1.7, Order No. 6687a

¹⁸ MPSC Docket No. D2007.2.18, Order No 6812d

¹⁹ Mid-Rivers written comments to the MPSC for the July 27, 2010 MPSC USF Reform roundtable, available at www.psc.mt.gov, E-DOCS, N2010.77.3

²⁰ On February 8, 1996, President Clinton signed into law the Telecommunication Act of 1996. This Act expanded the scope of the existing Universal Service provisions. The Federal-State Joint Board on Universal Service was established in March 1996, to make recommendations to implement the universal service provisions of the Act. This Joint Board is comprised of FCC Commissioners, State Utility Commissioners, and a consumer advocate representative.

The MPSC believes the FCC should eliminate the purely arbitrary cap on the CETC High Cost Support fund. The FCC should control the size of the fund through the elimination of the identical support rule. CETCs should receive support based on their own costs, not the costs of the incumbent. The MPSC believes that CETC High Cost Support is vital in providing wireless service to rural Montana and that CETC High Cost Support should not be eliminated.

4 Mbps broadband service is not “similar” to 100 Mbps broadband service.

The FCC is proposing to support through the CAF the provision of universal access to 4 Mbps broadband service by 2020. It is also supporting the goal of having access to 100 Mbps broadband service available to 100 million people by 2020. (It is not at all clear if the FCC intends to fund some sort of program to achieve the 100 Mbps access.) In any case it is the opinion of the MPSC that if these goals are met the outcome will be rural areas such as Montana having universal access to 4 Mbps broadband service, while 100 million people in urban areas will have access to the 100 Mbps service. This again is in direct violation of U.S.C. 47.5.254(b)(3).

(3) Access in rural and high cost areas

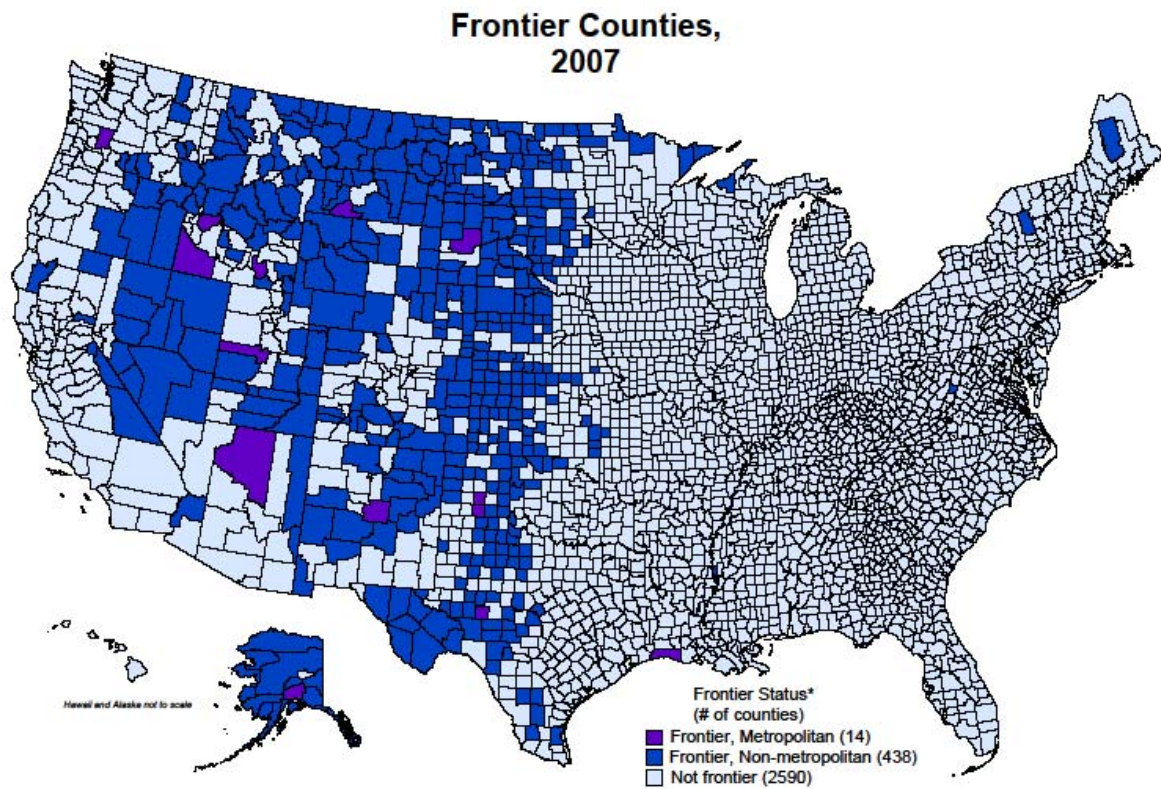
Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are *available at rates that are reasonably comparable to rates charged for similar services in urban areas.*

The MPSC suggests the FCC rethink its bandwidth proposal such that bandwidth goals set for urban versus rural areas are similar.

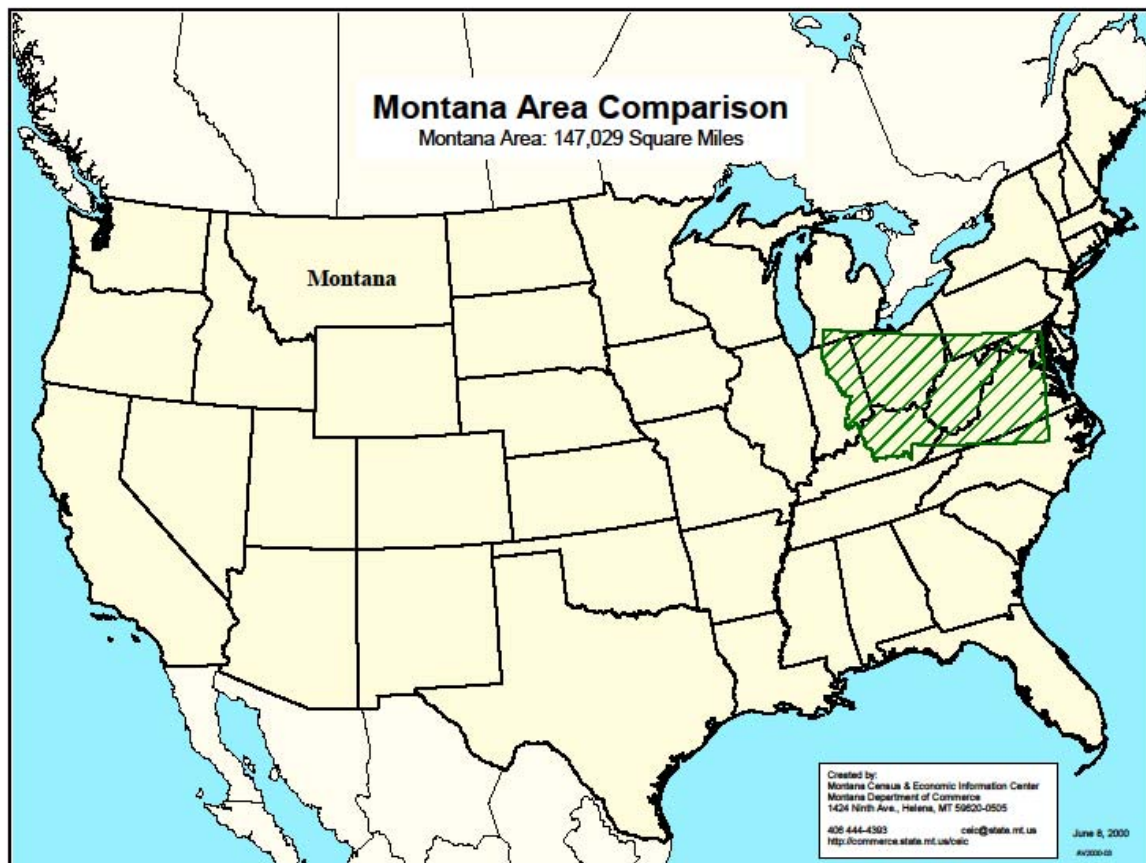
Conclusion

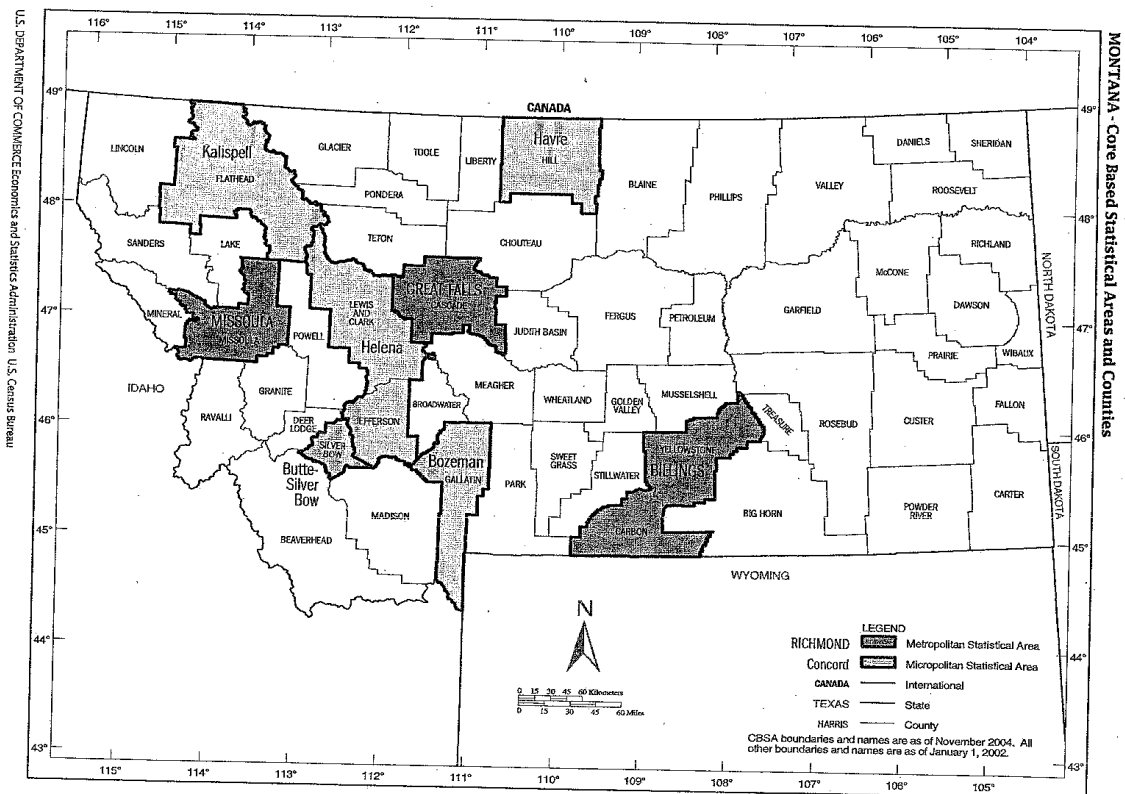
The MPSC does support broadband as a supported universal service. However, unless there is an acceptable replacement support system, the MPSC is adamantly opposed to reducing and eliminating the legacy USF High Cost Support mechanisms that have served Montana so well by enabling Montana rural ILECs to build, maintain, and operate modern voice and data networks. If the FCC truly wants to support universal access to broadband through the CAF, the MPSC suggests additional funding will be required from an expanded base of contributors. We suggest

the FCC identify all private enterprises that will benefit financially from universal broadband access and those entities should contribute to the CAF.



*Frontier counties are defined as having fewer than seven persons per square mile.
 Source: Area Resource File, 2006: US Department of Health and Human Services, Health Resources and Services Administration.
 Prepared by: The North Carolina Rural Health Research and Policy Analysis Center, Cecil G. Sheps Center for Health Services Research, University of North Carolina at Chapel Hill.





Montana Total High Cost Support Payments by Study Area (\$Millions)

USAC Disbursement Reports

	<u>Incumbent Local Exchange Carriers</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
1	Blackfoot Telephone Cooperative, Inc.	4.9	4.8	4.8	5.1	5.0	4.4
2	Hot Springs Tel. Company	0.6	0.6	0.6	0.7	0.7	0.6
3	Interbel Telephone Cooperative	3.1	3.1	3.2	3.1	2.9	2.8
4	Lincoln Telephone Company	0.3	0.3	0.4	0.4	0.4	0.4
5	Mid-Rivers Telephone Cooperative	6.2	6.0	5.7	5.3	5.2	5.2
6	Nemont Telephone Cooperative	4.3	4.3	3.9	3.6	4.9	5.8
7	Northern Telephone Cooperative	1.5	1.5	1.7	1.9	1.9	1.7
8	CenturyTel	2.2	4.7	3.4	4.1	4.2	4.1
9	Project Telephone Company	3.5	3.5	3.3	3.4	3.3	3.2
10	Range Telephone Cooperative	1.9	1.8	1.6	1.4	1.6	1.5
11	Ronan Telephone Company	0.6	0.6	0.7	0.6	0.6	0.6
12	Southern Montana Telephone Company	0.8	0.8	0.9	0.9	1.2	1.5
13	3-Rivers Telephone Cooperative, Inc.	8.4	7.1	6.5	6.5	5.8	7.6
14	Triangle Telephone Cooperative	3.6	4.1	4.3	4.1	4.9	5.3
15	Blackfoot Telephone (Clark Fork)	6.1	5.1	4.7	3.8	4.2	3.7
16	Central Montana Communications	3.8	4.0	4.3	4.9	5.0	6.0
17	Citizens Telephone Company	1.7	1.5	1.3	1.0	0.9	0.8
18	<u>Qwest Corporation</u>	<u>17.4</u>	<u>16.9</u>	<u>16.5</u>	<u>14.8</u>	<u>13.7</u>	<u>12.8</u>
	Total ILEC	70.9	70.7	67.8	65.6	66.4	68.0
	<u>Competitive Local Exchange Carriers</u>						
1	Mid-Rivers CETC	1.1	1.2	1.3	1.3	1.2	0.9
2	3-Rivers CETC	0.1	0.2	0.2	0.2	0.2	0.1
3	Alltel Wireless CETC	0.0	2.6	6.9	4.5	3.9	2.9
4	Cable & Communications Wireless CETC	0.0	0.1	1.0	1.1	1.0	0.8
5	Sagebrush Cellular CETC	0.0	0.0	2.0	4.4	4.8	4.0
6	Range CETC	0.0	0.0	0.2	0.3	0.2	0.2
7	<u>Chinook CETC (Cellular One)</u>					<u>1.7</u>	<u>2.9</u>
	Total CETC	1.2	4.1	11.6	11.8	13.0	11.8
	<u>Total Montana High Cost Support</u>	<u>72.1</u>	<u>74.8</u>	<u>79.4</u>	<u>77.4</u>	<u>79.4</u>	<u>79.8</u>